

ARE OUR RAILROADS
TREATED FAIRLY?

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An Address by

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"ARE OUR RAILROADS TREATED FAIRLY?"

By Frederic A. Delano.

"Are Our Railroads Treated Fairly?" Although that question is the subject of our debate, it is not my intention to attempt to answer it. I shall make an effort to tell briefly the history of the situation and describe the present conditions, and let you decide for yourselves, from the facts.

The first steam railroads were built scarcely more than 80 years ago. As you all know, in no country of the world has their growth been so rapid as here, and nowhere else has so much been accomplished by private enterprise. During the first 60 of these 80 years every possible encouragement was given to the promoter and investor to build into new territory or to duplicate existing lines. The evils which flowed from excessive railroad building and over-speculation in railroad construction cannot be laid wholly at the door of the railroad men of the time, but must be shared equally by the general public, for everything was done to encourage the lust of conquest. Full and complete dependence was placed upon the competitive theory. And yet, through all this period, in spite of all the glowing prospectuses of the promoters of the day, it was recognized that investments in railway securities were hazardous.* Forty and fifty years ago the interest rates on railway bonds were 7 to 10 per cent, and this, with discounts and stock bonuses given, brought the net interest burden upon the railroads to fully 10 per cent. Usually neither the states nor the communities gave any guarantees whatever. On the other hand, there was no intimation that profits would be limited to what the courts now call "a fair rate of interest on the investment." The

*An important consideration is that investment in a railway is different from investment in any other enterprise in that it can never be abandoned, however unprofitable it may turn out to be. Thus, a new line or an extension of an existing line may prove to have been unwisely conceived, and unnecessary; it may be excessively costly to operate; but, notwithstanding this, Federal and State authorities declare that it cannot be abandoned.

The railway I am connected with has a short branch to a town on the main line of two railways and served by four in all, yet the authorities forbade our abandoning this unprofitable branch and compelled us to rebuild a bridge on this line, the cost of which will not be repaid in several years of operation.

reasonable expectation of the investor was that, while some of these investments might prove disastrous, they might prove very profitable.

Towards the end of this first 60-year period, the evils of the competitive system began to make themselves felt, and public opinion demanded remedial legislation. Briefly stated, those evils were excessive discrimination between communities and even between individuals. The first important legislative effort at a remedy was the passage of the Interstate Commerce law, 25 years ago. Since that time, especially within the last 20-year period, there has been a constantly growing public sentiment of hostility towards the railways. I shall make no attempt to justify the acts of the railways during these first decades of development, although I think much might be said on that score. Any student of the question can readily see that the conditions were the natural result of the method. Communities everywhere did all they could to make the railroads compete with each other, in order to secure by this very competition discrimination in their own favor; large industries in their own sphere did the same thing, and the reaction finally came when there were not enough favors left to go around. Communities and individuals who received less than they thought they ought to, began to raise objections to the system which they had themselves helped to create.

Briefly, then, the history of the railroads has been:

First. Sixty years of rapid extension and competitive building, leading to intense strife for traffic, encouraged in every possible way by the communities.

Second. Growing dissatisfaction with the railroads during the latter part of this period.

Third. An entire change of policy in the last 20-year period, compelling a readjustment by the railways.

This latter phase is the one in which we are particularly interested to-day. It is not necessary to tell a body of business men or economists that readjustment is the most difficult problem which business has to encounter. We have a good example of that in the tariff question. Many of us favor a decided reduction of the tariff, but even the most ardent believer in a tariff for revenue rather than a tariff for protection can see the immense difficulties of readjustment when it is remembered that wages and all the methods of manufacture have been predicated on one set of conditions and must be rudely or quickly readjusted to another. In this period of readjustment the railroads have also been confronted by the swelling tide of dissatisfaction which has shown itself chiefly in an unfriendly, if not hostile, public opinion. It may be said that in the 60 years of our growth we "sowed the wind" and are now "reaping the whirlwind," but in

any fair review of the facts I think it will have to be acknowledged that the whole community shared in bringing about this result.

I do not wish to appear before you as a special pleader. Railroad men do not claim, and I do not claim, that we are better than other men—that we are more free from blame or responsibility. But, considering the problem broadly and fairly, it has always seemed to me that railroad men would average up with any equal number of bankers, manufacturers or merchants. Any other conclusion must be based on the theory that the vocation does not attract the best type of our civilization, or that there is something in the calling which tends to a faulty development, neither of which conclusions seems to me to be well founded. On the contrary, it seems to me that the great variety in a railroad man's work makes a distinct appeal to men, and by the same token the work should broaden character rather than narrow it. And this is true, even though we see a tendency in railway organization, as in all other pursuits, towards the development of specialists rather than "all-around" men.

The greatest difficulty the railways have to-day arises from the fact that the policy of the country as a whole is inconsistent and unsettled, for, while the federal and state governments have emphatically adopted the theory of the regulation of rates, public opinion and the law still retain the theory of the competitive system. In other words, the community as a whole seems unwilling to trust the regulation theory or else wants to get all the advantage of both theories. When the railroads, some three or four years ago, appealed to the Interstate Commerce Commission for an advance in rates, they were attacked by commercial organizations in most of the large cities, on the ground that they were conspiring together to advance rates in violation of the Sherman Anti-Trust Law. The Commission denied the advance *in toto* on the ground that some of the more prosperous railroads were already making a good return on their investments. A feature of the argument during the hearing was that of the counsel for one of the protesting communities, maintaining that an advance in rates was unnecessary because enormous economies were possible by the adoption of efficiency methods; and while railroad men of the country were fully aware that there was much truth in this suggestion, they were powerless to effect many of the most obvious economies because they could only be brought about by co-operation between the railroads, and effective agreements in respect to time schedules, methods of operation, and the like, for such co-operation and agreements, although reasonable, probably would be held by the courts to be contrary to the Sherman anti-trust law. Railway men were aware also that they could make additional economies by the more general

introduction of piece work, bonus or other methods to increase the efficiency of labor, but they were more keenly aware than the general public that such changes would be met with opposition and probably strikes by organized labor; and, as has been frequently pointed out by others, while the law imposes on railway managements the duty of maintaining continuous transportation service, it does not afford to the railways adequate protection against unreasonable strikes which would interrupt the service.

The plea of the railroad man to-day is that either he be let alone to work out his own salvation under the competitive system, or that the country shall acknowledge that the competitive system is so objectionable in some of its results that we must rely solely on federal and state authorities to pass upon or fix rates. Someone will say this is a plea for "pooling," and the evils of the old "pool" days will be recalled; but that is not the contention. The claim is that if we must submit to the regulation of rates, then we should be free to make binding agreements between ourselves in respect to rates, time schedules, terminal allowances and multitudinous matters in connection with our public duties, subject always to full and complete publicity and the approval of the state and national authorities.*

The hostile public opinion to which I have already referred has borne down upon the railroads in numerous exactions of law, sometimes veiled under the guise of the necessities of public safety, but more often nothing more nor less than in the spirit of retaliation against the railroads. Unfortunately, too, during the latter portion of the period of which I am speaking, much of this legislation has been fathered by labor organizations among our own employes who, instead of being loyal to their employers, are actually "lobbying" against us. I am not saying this in unfriendliness to labor men, but because I feel that I must in this discussion talk plainly and not mince matters.

I shall attempt a brief review of some of this legislation that you may have the matter clearly before you:

1. **Legislation for the Two-Cent Fare Law.** This swept over the country, especially in the middle West, some six or eight years ago. The theory of the legislation was that the giving of free transportation by railroads had been altogether too general, and that the

*When railway men complain of rates, it is commonly said that it is folly of them to complain, because they established the very basis of rates complained of. That is true. The competitive system which brought many railway corporations to bankruptcy and created many unjust discriminations did slaughter rates to a minimum. Now, by the operation of law, these rates have been made unadjustable, except downwards. They have been frozen.

granting of a two-cent fare on mileage books helped the traveling man who was paid by wealthy corporations, whereas the poor man and the farmer had to pay full local rates. The net effect of this legislation has been a severe impairment of railway passenger earnings, and yet communities cannot see that with two cents as a maximum the railroads are not as free as formerly to give reductions in rates for special occasions, such as county fairs, excursions to cities, etc.

2. Postal Legislation. Great reductions in the compensation by the government to the railroads for carrying the mails have been made, until this service on many railways is done at an actual loss and at the expense of other business. One of the most glaring injustices under the postal law and the executive orders of the Postmaster-General and his assistants arises from the fact that the railroads carry the mails for four years on the basis of weight at the beginning of this four-year period, and as an example of what injustice can be done under the guise of governmental regulation, I might refer to what actually happened in the central West last summer. About three months prior to the quadrennial mail-weighing, the Postmaster-General diverted a large part of the magazine mail to be carried by freight, so that when the weighing was accomplished the railroads received no increment on account of the weight of magazines, although the business had been built up largely in the preceding three and one-half years. Three months later the government parcels post made a large addition to the weight of mails carried, but still no allowance has been given to the railroads for this. Thus, at the present moment, while the government is gaining favor in the public eye by the carriage of parcels post matter, the chief work in connection with that carriage—the work of transportation—is being done free of any expense to the government; that is, it is being done on the basis of weights taken before the parcels post was inaugurated.

3. The Hours of Service and Safety Appliance Laws, although adding to the burdens borne by the railways, were so obviously regulations intended to promote safety and better working conditions that I mention them not in complaint, but only as a matter of record.

4. The Boiler-Inspection Law. The ostensible object of this law was to promote the safety of engineers and firemen, but its effect has been very much more far-reaching. It is so drastic that to comply with its provisions is practically impossible. It would require every locomotive in the country to be in practically perfect condition, and in practice is operative solely at the discretion of a large number of minor government officials. During the winter of 1912 an important trunk line in this country was almost put out of business by reason of an inspector coming down upon it and condemning every loco-

tive in the round house. The fact that the inspectors ordinarily use discretion and common sense in administering the law, that they do not always enforce its provisions to the letter, is the only reason that it is operative at all; but that is poor satisfaction to the railroad official.

5. **Electric Headlight Laws.** In a number of states electric headlight laws have been enacted, ostensibly for the protection of the locomotive engineer and the traveling public, but there is reason to believe that it is really for the promotion and benefit of an electric headlight corporation, in the official ranks of which members of the Brotherhood of Locomotive Engineers are prominent. A responsible organization and one justly proud of its long reputation for honorable dealing and conservatism cannot safely lend itself to this sort of chicanery. These state laws in many cases do not simply require a headlight of adequate candle power, but by specifying an electric light or one of very high candle power, they exclude equally effective acetylene headlights, although it is a notorious fact that these have proved simple and satisfactory in service on automobiles all over the country.

6. **The So-Called "Full-Crew" Laws.** I need hardly tell a New York audience about these laws. They are among the most unjust exactions which railroads have ever had to face. Several years ago the federal government required the railroads to equip all their freight cars, as well as passenger cars and locomotives, with air brakes, and stipulated that the speed of trains should be entirely controlled by the locomotive engineer. Now comes an organization of trainmen, boasting a membership of two hundred thousand, and by reason of an offensive and defensive alliance with the other railroad organizations, having the tacit support of all, and by means of its lobbies and pre-election pledges, is trying to compel the railways to employ unnecessary men. So far from being in the interest of public safety such legislation is the reverse, for the reason that traveling on a freight train is obviously hazardous, and placing an additional man where he can do no good and is only risking his own neck, puts an additional risk and burden upon the railroad, over and above the wages paid. Besides, by increasing operating expenses, it tends to reduce net earnings, and whatever reduces net earnings impairs the power of the railways to raise capital that should be invested in additional tracks, block signals and other improvements that do tend to increase safety. The object of this trainmen's organization in this instance is purely selfish. Its members realize as well as every employer or economist that wages are controlled in the long run by demand and supply; that by compelling the railroads to employ this ad-

ditional brakeman on every train, they will increase the demand and help to exhaust the supply; thus influence wages.

After such an array of remedial (sic) legislation, and this is only a partial list, no wonder that President Hadley of Yale, one of the wisest contributors to the sum of human knowledge upon this subject, was moved to exclaim in an address at New Haven last January:

"I am afraid that neither the public nor the government is awake to the real state of things. In our endeavors to control corporations, we too often try to lessen their efficiency instead of increasing it."

The results of these changes in policy and the enforced readjustments are beginning to be apparent. They should have your consideration, for they are of immense importance.

First of all, it is very clear that the period of railroad building and extensions is over. A great deal of capital is needed and will be used in completing and improving existing railroads and in adding to their equipment and facilities; but the period of building extensions into new territory is over, because there is no encouragement to the investor. There is a vast territory west of the Mississippi and Missouri rivers which needs development, but however this may be, it can be put down as a safe prognostication that if the present policy of regulation continues, this territory must rely for development solely on the extension of branches and feeders from existing railways, and they will make additions to their mileage only in proportion to the encouragement afforded by the earnings of existing lines.

Second, the railroads' cost of living has gone up enormously in the last twenty years. Staple necessities, such as fuel and ties, have increased very largely in cost, and at the same time the standards of service which the public demands have greatly risen. In order to increase their efficiency, railroads have been compelled to use larger locomotives, increase their tons per train; this in turn has created a demand for larger and stronger cars, heavier rail, better roadbed, and so on.

Another important point is that in recent years the general rate of interest has risen. It has risen against the railways as well as against other borrowers, and, therefore, to raise adequate capital the railways must pay, and must, therefore, earn, a larger return on capital than formerly was necessary. Railways which a few years ago could sell $3\frac{1}{2}$ per cent bonds at par cannot now sell $4\frac{1}{2}$ per cent bonds at par. The net earnings of the railways have not increased in proportion to the increase in the amount that they must pay to get new capital or to refund old securities.

Third. Every new public demand of the federal or state government or the municipality puts a burden which is especially heavy

to bear on the railway company with small resources. It is perfectly clear to railroad men that the day of the small railroad has absolutely gone. A railroad of less than 500 miles which is not an adjunct to an important mining or manufacturing concern has little show for existence. Although public opinion more or less resents the great railroad corporation and the excessive centralization of authority incident to these large corporations, yet it is perfectly clear that the many exactions of law to which I have briefly referred have had much to do with bringing them into being. In the battle for existence only the strongest have been able to survive.

Fourth. It has been sometimes pointed out that poverty and wealth are largely comparative terms; and certainly this applies to railway corporations just as much as to individuals. The plea of the relatively poor corporation for an advance in rates is unheeded. Our Commissions think only of the profits which our richest corporations will make by reason of a possible advance. The fact that the richest corporations represent relatively small proportion of the total mileage; that they are rich by reason of fortunate chance or extraordinary foresight; that many of them are corporations which went through a long struggle in their early history and only after bankruptcy were put upon a paying basis, is forgotten. The very complexity of all these questions points clearly to the principle that the public should more and more depend on expert knowledge in the regulation of the railways, and not attempt this regulation by annual legislative enactments.

Fifth. The greatest hope of the railways and the public in the future lies in intelligent regulation. Railway officers whom I meet and talk with do not in the least fear the results of regulation by Commissions free from political pressure, with a fair knowledge of the facts. Our experience is that these Commissions, as they come to know the problem better, are more and more willing to understand the railroad man's point of view, and, as we think, deal fairly with us. One of the great troubles is that while the public and the legislatures have created these commissions on the theory that they will be most competent to solve the problems of public regulation, the public and legislatures will not refrain from interfering with the work of the commissions. In many states the legislatures or the people by referendums have adopted laws to reduce rates or impose unreasonable restrictions or burdens on the railways when the legislation was openly opposed as unreasonable, unjust and harmful by the commissions. The public shows too much of a disposition to disregard injunctions of experts to be fair and moderate, even when they proceed from its own experts, and to trust and follow only those public men who advo-

cate radical and even violent measures. We are not blind to the danger which lies in the public clamor for better service and more exacting requirements. It sometimes seems as if every man's hand were against us, and as if few men in public life could be found to possess the requisite courage to withstand the pressure; but my opinion is that while the public is slow in making up its mind, it finally comes to a right conclusion and the reaction is all the more effective when it does come. The time is sure to arrive when the public will see that if there isn't a fair profit in railway operation the development is bound to cease, because capital will seek other and more gainful occupations.

In Conclusion.

Some wag has said that an optimist is a man who will take the lemons that are handed to him and make lemonade of them; and certainly every railroad man is an optimist. He cannot afford to be anything else. He could not survive if he were anything else. I should, therefore, admit that I was not true to the type if I did not sincerely believe that these problems would all be worked out satisfactorily as time goes on. It is for the railroad man to state his case frankly and squarely, and it is for you gentlemen and for the community at large to decide whether the railways have been fairly dealt with or not. Just as medical science has discovered that it is the tendency for every malady to create its own destructive agent, so it appears to me the history of the world shows that the same is true of every economic disease. We have gone far from the doctrine of *laissez faire*, but it is clear to every thinking man that there was a fundamental truth in that philosophy. We live in an impatient era; every evil is described in exaggerated terms, and while part of the community become, through this very exaggeration, callous to real troubles, the better and more sensitive portion is impatient that the progress is not more rapid.

Just so soon as the public become convinced that the railways are not fairly treated, that their treatment is reacting upon them in the shape of diminished ability to furnish adequate facilities, safety appliances, and the like, just so soon there will be a check on unreasonable exactions and unfair restrictions. Government ownership of railroads is a bugaboo which, though often referred to, the public does not demand. If government ownership of railways comes, it will come because the owners of railways prefer it to government regulation, and it will be a sorry day for the republic when regulation is carried to such an extreme that the owners of the railways are unwilling to accept any longer the responsibilities of management.

